

**BILL #** SB 1007

**TITLE:** vehicle license tax; military exemption

**SPONSOR:** Waring

**STATUS:** Senate Engrossed

**PREPARED BY:** Tim Everill

## **FISCAL ANALYSIS**

### **Description**

This bill would expand the existing vehicle license tax (VLT) and registration fee exemption for members of the military who are deployed in support of a worldwide contingency operation of the United States armed forces to include newly acquired vehicles, and limits the exemption to military members who are residents of Arizona. The bill also provides that the exemption may only be taken one time, must be taken between the time of deployment and one year after the member is discharged from the military, and is limited to no more than two vehicles.

### **Estimated Impact**

The bill is projected to reduce VLT collections by approximately \$(360,000) in FY 2008, which would result in a loss of \$(85,000) to the State Highway Fund (SHF) and \$(275,000) to local jurisdictions. This estimate is based upon simplifying assumptions due to the lack of data on vehicles purchased by returning veterans. This bill would have no state General Fund impact.

MVD does not have an estimate of the impact of this bill.

### **Analysis**

The VLT is an ad valorem tax levied on vehicles registered in the state. The tax is levied per \$100 of a vehicle's assessed value. For the first 12 months of the vehicle's life, the assessed value is 60% of the manufacturer's base retail price. For each subsequent year, the assessed value is 16.25% less than the previous year. The rate per \$100 of assessed value is \$2.80 for new vehicles, and \$2.89 for renewals. For most classes of vehicles, there is minimum annual VLT of \$10. Based on data from the Arizona Department of Transportation Motor Vehicle Division (MVD), there are approximately 5 million vehicles registered in the state (excluding commercial vehicles, trailers, motorcycles, etc.) The average annual VLT for these 5 million vehicles is approximately \$180.

Existing statute provides that a member of the military who owns a motor vehicle, and is deployed outside the state in support of a worldwide contingency operation of the United States, may renew the registration of the motor vehicle for one year without payment of registration fees and the VLT. This exemption currently applies to no more than two vehicles per member of the military. As noted above, this bill expands this exemption to include the purchase of a new or previously owned vehicle that the military member did not currently own at the time of deployment.

Current statute provides an exemption from VLT for certain veterans who are disabled or who are receiving financial aid from the Veterans Administration, as well as active military members deployed as noted above. MVD indicates there are currently approximately 19,000 vehicles exempt from VLT. They are unable, however, to provide data as to how many vehicles fall into each of the exemption categories.

As noted above, the provisions of this bill would add newly purchased vehicles to the categories of vehicles exempt from VLT. It is unclear to what extent returning military personnel would elect to purchase a vehicle rather than retain a vehicle they had previously owned. To the extent that returning military personnel purchased vehicles rather than retaining currently owned vehicles, there would be a reduction of VLT revenues. The Department of Emergency and Military Affairs (DEMA) estimates that there are approximately 4,000 Arizona service personnel deployed in worldwide contingency operations. DEMA indicates that many of these personnel elect to dispose of a currently owned vehicle rather than store it for the length

of their active duty service. In addition, many of the deployed service personnel are recent high school graduates, and may not have currently owned a vehicle.

Based on this information, if we assume that one half of the 4,000 Arizona service personnel were to purchase a vehicle upon their return to the state, there would be a reduction in VLT collections of approximately \$360,000 (2,000 x \$180 average VLT). This number could vary to the extent there were more or fewer personnel purchasing vehicles, and to the extent that the value of the purchased vehicles varied from the average.

#### **Local Government Impact**

VLT collections are generally distributed as follows: 45% to the Highway User Revenue Fund (HURF), which is further distributed to the SHF and local jurisdictions; 30.3% to counties; and 24.6% to cities and towns. About 77% of total VLT collections is distributed to local governments, while most of the remainder goes to the SHF. VLT distributed to cities, towns, and counties in the state could be reduced by approximately \$(275,000) in FY 2008.

3/27/07